

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
ITEM 12
Agenda ID # 14061
ENERGY DIVISION **RESOLUTION G-3505 (Rev. 1)**
July 23, 2015

R E S O L U T I O N

Resolution G-3505. Pacific Gas and Electric Company (PG&E) requests an escalation of the unit cost caps for certain expenses recorded in the Gas Leak Survey and Repair Balancing Account.

PROPOSED OUTCOME:

- Denies PG&E's request to increase the unit cost caps for these expenses.

SAFETY CONSIDERATIONS:

- Costs recorded in the Gas Leak Survey and Repair Balancing Account are directly related to activities that help to ensure the safe operation of PG&E's gas distribution pipelines.
- It is the utility's responsibility to adhere to all Commission rules, decisions, General Orders, and statutes including Public Utility Code Section 451 to take all actions "...necessary to promote the safety, health, comfort, and convenience of its patrons, employees and the public."

ESTIMATED COST:

- There is no additional cost impact on ratepayers since PG&E's request is denied.

By Advice Letter 3550-G filed January 8, 2015.

SUMMARY

PG&E's request to escalate the unit cost caps associated with the Gas Leak Survey and Repair Balancing Account is denied. Decision (D.) 14-08-032 authorizing a "two-way" balancing account for expenses to be recorded in this balancing account subject to a cap on the aggregate authorized expenses at specific amounts. The decision also adopted unit cost caps for these expenses with no additional allowance for cost escalation.

BACKGROUND

Decision (D.) 14-08-032 in PG&E's 2014 General Rate Case (GRC) adopted base revenue requirements for the 2014-2016 period for PG&E's electric and gas distribution departments. Based on record evidence from the proceeding, D.14-08-032 determined PG&E's Operations and Maintenance expenses required for PG&E's gas distribution leak survey and repair and other corrective maintenance activities for years 2014, 2015 and 2016.

Ordering Paragraph 6 of D.14-08-032 authorized PG&E to file a Tier 1 Advice Letter within 45 days of the effective date of the decision to establish a "two-way" balancing account to track and adjust for the difference between maximum allowed and actual expenses incurred relating to Gas Leak Survey and Repair work categories. On September 29, 2014, PG&E filed Advice Letter (AL) 3518-G establishing the Gas Leak Survey and Repair Balancing Account (GLSRBA) in compliance with D.14-08-032. The Energy Division approved AL 3518-G on November 13, 2014, with an effective date for the balancing account of January 1, 2014.

The GLSRBA records actual leak survey and repair expenses, and balances those expenses with authorized expenses. D.14-08-032 capped authorized expenses at specific amounts. Not only was the aggregate expense capped for the various categories of work conducted, but the unit costs for some of the work conducted for leak survey and repair were also capped.

The balancing account was authorized primarily because of the uncertainty as to the number of leak survey and related corrective or repair actions that PG&E would be undertaking during the 2014-2016 period. In lieu of PG&E's proposed three year leak survey, D.14-08-032 adopted the number of leak survey and repair actions based on a five year leak survey cycle forecast. The decision also recognized the balance between safety risk and overfunding relative to actual expenses; so rather than adopt a specific forecast of expenses for this work, the Commission authorized a two way balancing account capped with maximum expense amounts based on PG&E's three year leak survey cycle forecast.

The Commission determined that PG&E be allowed to recover expenses (subject to the expense cap) based on the actual number (or "units") of leak surveys and related corrective/repair actions multiplied by the average costs per unit. The "average unit cost" amounts were specifically adopted in D.14-08-032.

PG&E filed advice letter 3518-G on January 8, 2015 requesting approval for establishment of the GLSRBA. This advice letter included specific unit cost caps in the

GLSRBA for 2014. The advice letter was approved by the Energy Division with an effective date of January 1, 2014.

On January 8, 2015, PG&E filed AL 3550-G to revise its Gas Leak Survey and Repair Balancing Account to adjust the 2015 and 2016 unit cost caps for attrition.

NOTICE

Notice of AL 3550-G was made by publication in the Commission's Daily Calendar. PG&E states that a copy of the Advice Letter and the Supplemental Advice Letter was mailed and distributed in accordance with Section 3.14 of General Order 96-B.

PROTESTS

Advice Letter 3550-G was protested by the Office of Ratepayer Advocates (ORA) on January 27, 2015. ORA argues that D.14-08-032 did not authorize PG&E's proposed escalation of unit cost caps associated with expenses for compliance leak survey, leak rechecks, corrective maintenance on mains and service above and below ground, leak repair at meter, and tee cap repairs.

In its reply comments filed February 4, 2015, PG&E argues that the GLSRBA approved in Advice Letter 3518-G provided for these cost escalations for 2015 and 2016. PG&E also claims that the cost escalations will not affect the overall annualized cost caps. Lastly, PG&E asserts that D.14-08-032 authorizes PG&E to implement attrition revenue requirement increases for years 2015 and 2016.

DISCUSSION

PG&E's request to escalate the unit cost caps associated with the Gas Leak Survey and Repair Balancing Account for 2015 and 2016 is denied. D.14-08-032 adopted unit cost caps for these expenses with no allowance for cost escalation. D.14-08-032 also adopted aggregate expense caps for each of the various categories of work associated with the GLSRBA.

Ordering Paragraph 7 of that decision states:

"Any subsequent rate adjustments to recover costs recorded in the balancing account shall be subject to the restrictions, rate caps, and limitations set forth below: For cost cap purposes, the amounts shown apply individually to each cost element on an annualized basis with no additional allowance for cost escalation, as follows: \$ in Millions-

DE Natural Gas Leak Survey	\$ 33.840
FI Leak Repair	102.141
HY7 - Meter Set Leak Repair	7.756
FHK Atmospheric Corrosion Inspection	4.737
Total	\$148.474

D.14-08-032 ordered that, for some of the activities, balancing account recovery by PG&E would be limited to adopted unit cost amounts.

With AL 3550-G, PG&E proposes to escalate the unit cost caps for compliance leak survey, leak rechecks, corrective maintenance on mains and services located above and below ground, leak repair at meter and tee cap repairs. In Ordering Paragraph 8 of D.14-08--32, the Commission found that: "For work for which an average unit cost is adopted, balancing account cost recovery will be based on actual units of work, but limited on an overall basis to adopted average unit costs." That is, the actual costs PG&E may record in the GLSRBA are limited not only by the aggregate amounts listed above, but also by the unit cost caps for work for which an average unit cost was adopted.

The capped expenses are identified in D.14-08-032 in Ordering Paragraph 6.¹ The actual amounts of the unit cost caps are stated in Finding of Fact 50².

¹ D.14-08-032, Ordering Paragraph 6: "Pacific Gas and Electric Company (PG&E) shall file its next General Rate Case for test year 2017 pursuant to the applicable Rate Case Plan adopted in Decision 89-01-040, as modified PG&E is authorized to establish a two-way balancing account to track and adjust for the difference between authorized and actual expenses incurred relating to Major Work Categories DE natural gas distribution leak survey, FI leak repair, Maintenance Activity Types (MAT) HY 7 meter set leak repair and FHK atmospheric corrosion inspection costs; and tee cap repair embedded in MAT JSL. PG&E shall file a Tier 1 Advice Letter within 45 days of the effective date of this decision to establish this balancing account. The Advice Letter shall be effective on January 1, 2014, subject to Energy Division determining that it is in compliance with this decision."

² D.14-08-032, Finding of Fact 50: No party disputed PG&E's average unit cost forecasts for the costs proposed to be recovered through the leak survey and repair balancing account. It is reasonable to adopt average unit cost forecasts applicable to the balancing account as follows: MAT DEA, \$15; MAT DED, \$230; MAT FIB, \$2,492; MAT FIF, \$2,994; MAT FIG, \$6,453; MAT FIH, \$620; MAT FII, \$1,895; MAT FIJ, \$1,248; MAT FIK,

Footnote continued on next page

We agree with ORA that escalation of the unit cost caps was not authorized in D.14-08-032. ORA correctly notes that, for work for which an average unit cost is adopted, Ordering Paragraph 8 of D.14-08-032 limits cost recovery under the GLSRBA to the product of the number of the actual units of work multiplied by the adopted unit costs.

PG&E states that its Tier I Advice Letter 3518-G establishing this balancing account which was approved by Energy Division included PG&E's escalation proposal. However, that advice letter does not take precedence over D.14-08-032.

In its reply comments to ORA's protest, PG&E argues that Advice Letter 3518-G establishing the Gas Leak Survey and Repair Balancing Account which was approved by the Energy Division included language which provides for these cost escalations for 2015 and 2016. While PG&E included the escalation language in advice letter 3518-G, approval of a Tier 1 advice letter such as AL 3518-G does not take precedence over a Commission decision. As discussed below, D.14-08-032 does not allow for escalation of these unit cost caps. PG&E should remove the current language in the tariff regarding the escalation of unit costs for 2015 and 2016.³

D.14-08-032 authorizes overall attrition increase to general rate case revenue requirement, but those attrition increases do not apply to the capped expenses for the GLSRBA or to the unit cost caps.

PG&E argues that Ordering Paragraph 3 authorizes PG&E to implement attrition revenue requirement increases for years 2015 and 2016, which includes escalation of adopted 2014 expenses. D.14-08-032, Ordering Paragraph 3 states:

"Pacific Gas and Electric Company (PG&E) is authorized to implement the attrition revenue requirement increases for years 2015 and 2016 in accordance with methodology detailed in Appendix D, Table 2 to this decision. PG&E shall

\$386; MAT FIP, \$3,184; MAT HY7, \$131; and tee cap repairs embedded within MAT JS, \$7,300.

³ Specifically, the second paragraph in PG&E's Gas Preliminary Statement DE, Sheet 1 reads: "The above unit costs apply to 2014. Unit costs for 2015 and 2016 will be escalated consistent with escalation applied to expenses in accordance with Ordering Paragraph 3 and Conclusion of Law 25 of D.14-08-032." This paragraph should be deleted.

include the fixed revenue requirement attrition amount for 2015 and 2016, respectively, as set forth in Appendix D, in its Annual Electric True-Up and Annual Gas True-Up filings.”

Appendix D sets forth 2015 and 2016 attrition year revenue requirements and underlying elements, but makes no mention of the attrition adjustment for expenses adopted for the GLSRBA or of the unit costs. It is clear that the treatment of expenses adopted for work under the GLSRBA is different from other PG&E expenses. Not only are the aggregate expense amounts capped for work categories under the GLSRBA, but Ordering Paragraph 8 states that for work for which an average cost is adopted, balancing account cost recovery will be based on actual units of work, but limited on an overall basis to adopted unit costs. Nothing in D.14-08-032 implies that the unit cost caps should be escalated for attrition.

With regards to the Leak Survey and Repair Balancing Account, Section 3.6.1 of D.14-08-032 states:

“Costs recoverable through the balancing account will be based on actual units of work, but limited to the adopted per-unit labor and overhead rates for applicable work activity and capped at PG&E's forecast amount as discussed in the preceding section.”

Finding of Fact 50 identifies the unit costs applicable to the leak survey and repair balancing account, while Finding of Fact 51⁴ and Ordering Paragraph 7 expressly set limitations for each cost element. Nowhere in D.14-08-032 is it implied that the unit costs could be escalated, and language included in D.14-08-032 obviously suggests that the Commission did not intend PG&E to escalate the unit costs associated with the Gas Leak Survey and Repair Balancing Account.

PG&E notes that because of the overall cap adopted in D.14-08-032, the proposed unit cost escalations for 2015 and 2016 will not affect the overall annualized costs caps. PG&E is correct, but their argument misses the point as to the unit costs adopted in D. 14-08-032.

⁴ D.14-08-032, Finding of Fact 51: It is reasonable to adopt annualized cost recovery caps with respect to each of the individual cost elements subject to inclusion in the leak survey and repair balancing account, as set forth in Ordering Paragraph 7.

PG&E agrees that D.14-08-032 set an overall cap of expenses to be booked into the GLSRBA, but argues that these cost escalations for 2015 and 2016 will not affect the overall annualized costs caps. PG&E is correct, but their argument misses the point. The issue is whether or not the unit cost caps may be escalated for attrition. Allowing PG&E to escalate the unit cost caps would potentially allow PG&E to recover more from ratepayers than if the unit cost caps are not escalated.

COMMENTS

Public Utilities Code section 311(g) (1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g) (2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, the draft resolution was mailed to parties for comments on June 15, 2015.

PG&E filed timely comments on July 13, 2015. PG&E respectfully disagreed with the draft resolution's denial, but accepted Energy Division's interpretation of D.14-08-032. No modifications to the draft resolution were made.

FINDINGS

1. PG&E filed AL 3550-G on January 8, 2015 to request an adjustment for attrition of the unit cost amounts associated with the Gas Leak Survey and Repair Balancing account.
2. D.14-08-032 authorized PG&E to file a Tier 1 Advice Letter to establish a two-way balancing account to track and adjust for the difference between maximum allowed and actual expenses incurred relating to Gas Leak Survey and Repair work categories.
3. PG&E should remove the current language in the tariff regarding the escalation of unit costs for 2015 and 2016.
4. The amounts that PG&E may recover through the GLSRBA are capped at specified expense amounts in various work categories.

5. For work for which an average cost was adopted in D.14-08-032, balancing account recovery is based on actual units of work, but limited on an overall basis to the adopted average unit costs.
6. The costs included in the account are for compliance leak survey, leak rechecks, corrective maintenance on mains and services located above and below ground, leak repair at meter, and tee cap repairs.
7. ORA filed a protest to PG&E AL 3550-G, arguing that PG&E's General Rate Case Decision 14-08-032 adopted average unit costs for certain work types with no additional allowance for cost escalation.
8. D.14-08-032 does not authorize PG&E to escalate the unit cost caps for 2015 and 2016.

THEREFORE IT IS ORDERED THAT:

1. Pacific Gas and Electric Company's request to adjust the unit cost caps for attrition for compliance leak survey, leak rechecks, corrective maintenance on mains and services located above and below ground, leak repair at meter, and tee cap repairs is denied.
2. Pacific Gas and Electric Company shall submit a Tier I advice letter to delete language in its current tariff Gas Preliminary Statement DE regarding the escalation of unit costs for 2015 and 2016 in compliance with this resolution within 60 days of its effective date.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on July 23, 2015; the following Commissioners voting favorably thereon:

TIMOTHY J. SULLIVAN
Executive Director